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SUBJECT: Poverty in South Africa: Two New Studies

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1. (SBU) Summary. Two new studies provide additional insight on poverty in South Africa. A report by the Development Policy Research Unit at the University of Cape Town provides additional evidence that South Africa has made progress in the provision of socio-economic services and infrastructure such as education and access to electricity, water and sanitation. A new study by the Human Sciences Resource Council, a government research institution, found that in income terms poverty has not changed significantly between 1996 and 2001. In fact, households living in poverty have sunk deeper into poverty, and the gap between rich and poor, regardless of race, has widened. The findings themselves are not new, but rather provide further evidence of South Africa's mixed record on economic development over the last ten years. Government poverty alleviation initiatives mitigate some of this disparity, but recent large increases in the number of beneficiaries are straining both national and provincial budgets. End Summary.

Access to Social Services and Infrastructure Improves

2. (U) The Development Policy Research Unit (DPRU) at the University of Cape Town studied poverty based on access to assets and services. It did not analyze poverty based on income. Using their access to assets or services approach, the DPRU report found that 68.5 percent of households lived in formal dwellings in 2001, up from 64 percent in 1996. Access to clean water also improved, increasing from 80 percent of households to 84.5 percent of households. Sanitation improved with 59.1 percent of households having a flush or chemical toilets compared to 50.3 percent in 1996. Households with electricity for lighting increased from 58 percent to 70 percent between 1996 and 2001; electricity for cooking, however, rose only from 47.1 percent to 51.4 percent. Households receiving refuse removal at least one a week from a government organization institution grew from 51 percent to 55 percent.

3. (U) The DPRU report found that there had been a marked improvement in education attainment since 1996 with the proportion of the population with a high school or higher education climbing from 22.6 percent to 28.8 percent. The proportion of the population with no schooling dropped slightly from 19.3 percent to 17.9 percent. The report notes that these figures reflect quantitative increases but not necessarily qualitative improvements. In fact, a study early this year by Stellenbosch University found that while the SAG had equalized spending across racial lines the quality of education had declined.

4. (SBU) Comment: The increases in access to services and the improvements in housing support data published last year in the Government of South Africa's review of ten years of democracy. The government and many commentators have noted the successes of government in improving housing and access to basic services. To help make the figures more understandable, in order to improve the percent of households in formal dwellings from 64 percent to 68.5 percent in five years, government had to provide housing to an additional 190,000 formal houses or nearly a million homes during this period. Electricity was supplied to an additional 1.7 million households or 335,000 per year.

Income Inequality Grows

15. (U) The Human Sciences Resource Council (HSRC) study looked at poverty in terms of income. Income was defined using household budget surveys and thus reflects only formal income, not the value of items produced and grown by the household or transfers the household received from government or members of the family resident elsewhere. HSRC found that approximately 57 percent of South Africans were living below the poverty income line in 2001, unchanged from 1996. Limpopo and Eastern Cape provinces had the highest proportions of poor with 77 percent and 72 percent of their populations living below the poverty income respectively. Western Cape and Gauteng had the lowest proportion in poverty, 32 percent and 42 percent respectively.

16. (U) To measure the depth of poverty, the HSRC study calculated the "poverty gap," the annual income transfer to all poor households required to bring them out of poverty. HSRC found that the poverty gap has grown from R56 billion in 1996 to R81 million in 2001, indicating that poor households had fallen deeper into poverty. The poverty gap has also grown faster than the economy. In 1996, the total poverty gap was equivalent to 6.7 percent of the GDP; by 2001 it had risen to 8.3 percent.

17. (U) This growth in poverty is reflected in a rise in inequality between rich and poor. According to the study, South Africa's Gini coefficient (a measure of income inequality where zero equals perfect equality and one equals perfect inequality) had grown from 0.69 in 1996 to 0.77 in 2001. In the past inequality in South Africa was largely defined along racial lines. The HSRC report, however, indicates that inequality within each of South Africa four racial groups has grown substantially. For African South Africans the Gini coefficient rose for 0.66 to 0.72, for Whites from 0.50 to 0.60, for "colored" South Africans from 0.56 to 0.64 and for Asian South Africans from 0.52 to 0.60.

18. (SBU) The HSRC study used a poverty line developed by the South African Advertising Research Foundation (SAARF), which is toward the lower end of most poverty lines. Choosing a different poverty line would affect the quantitative results but is unlikely to alter the conclusion that poverty has increased. Government disputes the HSRC figures because they do not include government transfers or private remittances. HSRC's Gini coefficient is higher than other recent studies. For example, the SAG in its "Toward Ten Years of Freedom" report calculated a coefficient of 0.57 in 2000, and recent University of Cape Town report estimated 0.60 in 2003. Whichever figure one uses, income inequality in South Africa remains among the highest in the world.

19. (SBU) Comment: There is no government-accepted poverty line in South Africa. Most studies have worked on the international definitions of either US\$1 or US\$2 per day. The World Bank estimated poverty using \$2 per day at 36 percent in 2001 compared to 34 percent in 1995. The US dollar based definitions have unfortunate consequences in an era of volatile exchange rates. In South Africa the rand has doubled in value against the US dollar in the last three years. This means a poverty line of one dollar a day was R12.15 in the beginning of 2002, but is R5.65 now; some people whose income halved during this period might have actually moved from being poor to being non-poor by the usual international definition. A major study in 2002 found that 46 percent of South Africans were poor based on SA's minimum living standards survey (equal to US\$1.60 per person per day). The SAARF definition used by the HSRC, by being based in assets and rands, does not have the problem of being based in US dollars.

Poverty Alleviation Stains Budget

10. (U) Government programs that provide grants to children, disabled and elderly South Africans are one of several government poverty alleviation initiatives, although given recent large increases in the number of grant beneficiaries, these initiatives are straining both national and provincial budgets. Two million people joined the list of grant beneficiaries between April and September alone, pushing the total number of beneficiaries to nine million - or one out of every five South Africans. Welfare and social security spending constitute the fastest growing share of overall expenditures,

increasing from 18.6 percent of total government expenditures in FY2004 to 20 percent by FY2007. The government now spends R50 billion on social grants and current estimates suggest that welfare grants will comprise over 40 percent of the government's expenditure increases over the next three years. As evidence of the its concern over escalating welfare costs, government recently granted extensions for indemnity to fraudulent grant recipients and began to investigate more systematically instances of welfare fraud.

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